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Correspondent of The National City Bank of New York

1812

1927

Economic Conditions
Governmental Finance
United States Securities

New York, March, 1927

General Business Conditions

THE general level of industry and trade has made further gains in February. Operations in some lines are showing a slack compared with the exceptionally high levels of a year ago, but judged by ordinary standards business in the aggregate continues very satisfactory and the present trend is upward. Considering the fall in agricultural prices, which affects the purchasing power of a large section of the population, and the high levels to which industry has been geared for more than a year, the record thus far in 1927 is distinctly encouraging.

It is true that production in a number of important industries, such as iron and steel and automobile manufacturing, though much improved over December, has been slow to get back to full time. The volume of new building projects, also, is running under a year ago, and wholesale and retail distribution has been somewhat more irregular than at this season in previous years. Mail order sales, which are usually taken as a measure of country buying, have recently shown losses compared with a year previous for the first time since 1924, while somewhat lessened activity in industry generally is reflected by a moderate reduction in factory employment and payrolls compared with a year ago.

Accompanying these changes in production and trade, prices have continued their downward drift and the record of business insolvencies has risen rather sharply to the highest levels since 1922.

Superficially, many of these factors would seem to reflect the beginning of a period of recession, but business has strong supporting influences in its favor. Absence of large stocks along the channels of manufacture and distribution continues to give assurance that buying must be maintained to care for the needs of consumption. Commenting on the recent decline in steel prices, the Iron Age says, "Buyers have not had occasion to take alarm and proceed to liquidate stocks because they have no stocks to liquidate, nor to cancel contracts or suspend deliveries because they had little of such engagements," and this apparently is typical of the status of industry generally.

With bank reserves augmented by $60,000,000 of net gold imports since the first of the year and the volume of Federal reserve credit outstanding the lowest in over two years, money conditions are, if anything, more favorable to business than in previous months. It is true that the mere presence of easy money is no assurance that industries which have become over-expanded will be able to escape the consequences of miscalculating their markets. It has the effect, however, of tempering the force of readjustment, confining it to those situations which are in need of correction, and facilitating the transfer of business into channels which have not been overdeveloped. Flowing into the stock market it sustains prices and contributes to the maintenance of business confidence, while in the bond market it stimulates the flotation of new security issues, the proceeds of which are used for the employment of labor and purchase of materials for construction work and equipment of industry. We have been for some time, and are now, witnessing a demonstration of these factors at work in prolonging a period of prosperity.

Business Holding Up Despite Decreases in Individual Lines

The following table showing in terms of index numbers the consumption of electrical power in various industries in January of this year and at different periods in the past indicates wherein decreases have occurred compared with a year ago. Practically all of the figures, it will be noted, are above the 1923-25 average.

ELECTRIC POWER CONSUMPTION IN THE UNITED STATES

(Monthly Average 1923-25 = 100)
Unadjusted for Seasonal Variation

Industrial Group	Jan. 1927	Dec. 1926	Nov. 1926	Jan. 1926
All Industrial Groups	107.9	101.7	107.6	113.8
Metal Industries Group	111.8	108.5	109.7	126.5
Rolling Mills & Steel Plts	110.0	106.2	109.0	....
Metal Fabricating Plants (ferrous and non-ferrous)	112.4	113.1	110.5	....

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Industrial Group	Jan. 1927	Dec. 1926	Nov. 1926	Jan. 1926
Leather and Its Products	101.1	101.2	101.7	121.2
Textiles	123.4	122.5	122.6	115.0
Lumber	112.0	103.7	108.2	109.8
Automotive	75.2	52.1	79.7	95.2
Stone, Clay and Glass	104.7	105.2	114.0	87.4

Contrasting with lower power consumption, bank checks cashed throughout the country and railway traffic afford evidence that business is matching up well with the records of previous years. The following table recording bank debits in 141 principal cities by Federal reserve districts for the first eight weeks of 1927 and 1926 shows only five districts with a decrease in checks handled compared with a year ago. The remaining seven show in most cases substantial increases, with the total for all twelve districts 4.5 per cent in excess of that of a year ago. This, moreover, is notwithstanding a wholesale price level averaging some 6 per cent lower than at the beginning of 1926.

DEBITS BY FEDERAL RESERVE DISTRICTS

(in millions of dollars)

	First 8 weeks of 1926	First 8 weeks of 1927	Change of 1927 over 1926
Boston	5,205	5,425	+4.2%
New York	55,788	59,547	+6.7%
Philadelphia	4,460	4,696	+5.3%
Cleveland	5,727	6,037	+5.4%
Richmond	2,572	2,522	—1.9%
Atlanta	2,510	2,369	—5.6%
Chicago	10,911	10,784	—1.2%
St. Louis	2,636	2,554	—3.1%
Minneapolis	1,390	1,293	—7.0%
Kansas City	2,435	2,545	+4.5%
Dallas	1,439	1,466	+1.9%
San Francisco	5,855	6,209	+6.0%
Total 12 Districts	100,920	105,445	+4.5%

Similarly, the figures on railway traffic make a good showing when the high levels of previous years are taken into consideration. Car loadings for the first 7 weeks of the year were 3.3 per cent above those of the corresponding period last year. While this was due in part to the increase in loadings of coal in consequence both of the threatened bituminous strike this year and the existence of the anthracite strike at this time last year, it is to be noted that merchandise, less-than-carload-lot, and miscellaneous freight, which reflects manufacturing activity, is holding somewhat above last year's level and considerably exceeds that of 1925. Following are the figures for 1927 and 1926 compared:

CAR LOADINGS FROM JANUARY 1 TO FEBRUARY 12 FOR 3 YEARS PAST

	1925	1926	1927	Change of 1927 over 1926
Miscellaneous	2,056,212	2,144,988	2,147,602	+ .1%
Merchandise and L. C. L.	1,625,827	1,668,805	1,702,079	+ 2.0%
Coal	1,368,280	1,256,587	1,503,220	+19.6%
Forest Products	496,515	459,634	434,721	— 5.4%
Grain	334,596	314,677	311,796	— .9%
Live Stock	243,435	222,079	209,612	— 5.6%
Ore	71,072	67,203	69,961	+ 4.1%
Coke	94,057	126,399	84,967	—32.8%
All Groups	6,289,994	6,260,372	6,463,958	+ 3.3%

Steel and Building

Steel mill operations though below the high level of January and February of 1926, are expanding and by the end of February were reported back to last year's average, or about 85 per cent of capacity, with the Steel Corporation running somewhat above this and the independents somewhat below. "A strong feature of the situation," says the Iron Age, "is the large aggregate of buying for widely diversified uses." The automobile industry is taking more steel for nearby needs, substantial orders for structural have been placed or are pending, and increased requirements by locomotive makers are indicated by domestic and Canadian orders for new locomotives totaling 187 since the first of the year compared with 107 a year ago. Prices continue the chief source of dissatisfaction to producers, these declining further in February to the lowest level since 1922. Lately, however, sellers have been offering more resistance to these tendencies, and the way in which buying has held up in the face of price unsettlement seems to preclude the likelihood of any indiscriminate price cutting.

Building figures, though also below a year ago, are holding up to high levels. F. W. Dodge Corporation's total of contracts awarded in January throughout 37 States was 16 per cent under that of last January, but otherwise the largest for the month on record. The National Association of Real Estate Boards in its semi-annual review of the real estate market throughout the country reports business in this line less active than at this time a year ago, but with selling prices holding firm. There is said to be a slight increase in the shortage existing in single family dwellings, apartments and business buildings, a barely perceptible change from June of 1926 in the situation as to residential rents, and an increased stabilization of rents for business and office space both for central locations and for outlying districts. Money for real estate investment is generally easy, with interest rates continuing steady.

Lumber Business Backward

Despite activity in building, lumber business has been slow to get under way, production, shipments, and orders running under a year ago. Statistically, the industry is in good shape, shipments and sales in 1926 having increased over 1925, while production held about

even, so that stocks at the present time are apparently about as low as at any time in recent years. The industry, however, is in competition with many other types of building materials, the use of which has been growing by leaps and bounds, as shown by a recent study of the U. S. Census covering the period 1909 to 1925. The results of this study, reproduced in the following table, show big gains for cement, face brick, steel, tile and gypsum, while lumber has fallen behind at every point. No better illustration could be had of the vicissitudes to which industry is always subject and which are constantly affording a test of the capacity of management. The farmer is perhaps inclined to think that all industry is arrayed against him, when as a matter of fact it is constantly engaged in a fierce internal competition in which the odds against the loser are as difficult to surmount as they are in agriculture.

BUILDING MATERIALS SUPPLY AND DEMAND
1909-1925
1909 = 100

Supply (Building Materials)— Annual Production	1909	1914	1919	1921	1923	1925
Softwood lumber	100%	86.8%	80.9%	65.5%	92.2%	93.5%
Hardwood lumber	100	74.8	67.3	45.0	59.0	62.5
Wood shingles	100	—	61.7	45.9	50.4	49.3
Wood lath	100	—	46.6	53.2	90.0	85.4
Common brick	100	73.0	48.5	45.4	74.4	91.6
Face brick	100	99.3	96.9	107.0	236.6	259.7†
Portland Cement	100	135.8	124.3	152.1	211.5	248.0
Hollow bldg. tile	100	179.5	191.4	165.5	308.9	347.4
Structural steel shapes	100	89.3	114.9	55.9	149.6	158.4
Iron & steel plates	100	111.5	174.1	100.6	224.3	231.6
Gypsum	100	—	107.4	128.3	211.0	252.0
Demand (Building Materials)—						
Value of contracts awarded, 27 states	100	89.4	162.2*	144.8*	201.2*	303.0*
Population, U. S.	100	108.0	115.8	119.6	123.2	127.2

* Reduced to basis of 1913 construction costs. † 1924.

The Non-Ferrous Metals

Consumption of copper has continued heavy, due to the activity in building, the electrical industry, etc., but has failed to keep pace with production. Stocks have been increasing, and prices, which have been on the downgrade since last Summer, weakened sharply in January and early February to 12½ cents, the lowest since 1924. Notwithstanding the steady growth of consumption from year to year, the expected prosperity of the copper industry is constantly deferred by the rapidity with which production is increased whenever the outlook improves. Since the low point prices have recovered to 13¼ cents, but whether these gains can be held remains to be seen. An important step in the direction of stability is the decision of the porphyry mines to curtail production pending an improvement in the price situation.

Lead and zinc business has also been on a large scale, reflecting large sales to the building, paint, electrical, and chemical trades, but, as in the case of copper, production has been even heavier and prices are ruling at the lowest levels in several years. Tin, on the other hand, has the distinction of showing pronounced strength, reflecting the failure of world production to keep pace with a rapidly expanding demand, and prices have risen to close to the highest point for recent years.

The Improvement in Cotton Goods

Opposed to a moderate amount of part-time in some industries that have been going ahead too fast has been the appearance of over-time in the textile industry. Cotton mill operations during January were at the rate of 102.3 per cent of single shift capacity, while mill consumption of cotton aggregating 604,584 bales was 3.8 per cent greater than in January, 1926, and with the exception of January, 1923, was the largest for any January on record.

In the goods market, sales of standard cotton textiles during January reached a record volume, according to the Association of Cotton Textile Merchants of New York, 69.8 per cent in excess of production. Stocks were reduced 10 per cent to a point 18.5 per cent below those at the end of January, 1926, while unfilled orders increased 43.2 per cent and at the end of the month were 41.4 per cent above those of a year previous. While business during February was admittedly less active than in January, this was partly due to seasonal causes, and the month is expected to rank with the best February in the history of the business.

So rapidly has the industry been going ahead that some voices are being raised in warning against over-production. Commenting on the troubles of the industry, David Clark, editor of the Southern Textile Bulletin, points out that—

> For four years mills have had fairly good orders during January and February and then been forced to run short time during the summer, but in the face of that fact the recent increase in demand, although it has not been sufficient to advance prices to a basis of normal profits, has been the signal for immediate expansion of production. . . . Had the cotton mills of the South seen fit to remain in "status quo" including the mills already on night runs, until the growing demand had time to influence prices, very substantial profits would undoubtedly have resulted and the usual summer short time might have been prevented.

The cotton goods industry is one of the country's largest industries and if cheap cotton has indeed put it back on its feet its recovery will exert an important influence for general business stability. Certainly the industry is due to a turn for the better, as it has been passing through very trying times for a number of years. High prices for cotton, changing styles, and competition of silk have made hard sledding, particularly for mills located in New England where conditions have been less favorable than in the South. Earnings have been unsatisfactory, and prices of

mill shares have undergone a sharp recession, as indicated by the following table comparing the Fairchild indexes of representative Southern and New Bedford mill shares in February of this year with previous years.

COTTON MILL SHARE AVERAGES

February	Southern	New Bedford
1923	145	162
1924	154	146
1925	138	138
1926	137	118
1927	126	82

Gains in Other Textile Lines

Demand for silks has broadened since the first of the year, and this, together with the advance in raw silk prices here to levels for the first time in many months above those in the Yokohama market, is believed to indicate a definite turn for the better in the industry. January shipments of raw silk to the mills were the largest in the history of the trade.

Rayon has done even better, the volume of buying at times approaching boom proportions. This line was under severe pressure during 1926, due both to foreign competition and to over-production in the domestic business, and prices were cut to the lowest levels on record. Following the turn of the year, however, business has picked up rapidly with the general increase in textile activity, and foreign competition has been less severe, due both to the lower prices established here and to the new working agreement reached among foreign producers of rayon materials. Prices have advanced and the industry generally is reported to be doing the best business of any period in its history.

Conditions in the wool goods market have also shown improvement, though the change has not been as marked as elsewhere in the textile industry. Woolen materials have suffered particularly from change in styles and competition of other fabrics, the consumption of wool declining steadily from 800,200,000 pounds in 1922 to 626,280,000 in 1926. The feature of the trade during the past month was the opening by leading mills of fall lines of overcoating and fancy woolen and worsted suitings at prices on a par with, or slightly higher than the spring list, but around 8 per cent under a year ago.

Other Active Lines

Bituminous coal mining continues to run steadily above all recent records for the season, due in part to the possibility of a strike when the present wage agreement between the miners and operators in the unionized fields expires March 31. Representatives of the miners and operators have met for the purpose of drawing up a new agreement, but have been unable to come to terms, the miners being firm against any wage reduction, while the operators insist that the lower wages being paid in the non-union fields make some reduction imperative. Union leaders threaten a strike, but state that if called it will be confined to the central competitive field (Ohio, Western Pennsylvania, Indiana and Illinois), thus permitting 150,000 miners in the "outlying districts" to continue working under the Jacksonville agreement.

Meantime, the country is adding steadily to its commercial stocks of coal. These were estimated at 55,000,000 tons on January 1 (not including 5,567,000 tons at the head of the Great Lakes), the largest total for any similar period excepting 1924 since the war, and 6,000,000 tons above that of January 1 last year. With large stocks above ground and non-union mines going full, the country shows little nervousness over strike prospects. On February 21 the Coal Age index of spot bituminous prices stood at 173, compared with 193 at the beginning of the year, and 299 at the peak reached last year during the British strike.

Another line from which good reports are had is the tire industry, February sales comparing favorably with those of any February on record, due to general business prosperity, prevalence of good motoring weather in many parts of the country and the substantial reduction that has taken place in surplus stocks in recent months. Should production of automobiles this year fall below that of 1926, sales of original tire equipment will also be affected, but the industry is counting on a heavy replacement demand and a more stable rubber situation to enable it to come out ahead of last year. During February leading companies announced a 7½ per cent reduction in prices of tires to manufacturers, but held prices to dealers unchanged.

In the oil industry, continued flush production in the Seminole field has carried aggregate crude output to a new high, with the result that the market has once more been over-burdened with surplus supplies, prices of both crude petroleum and gasoline have been cut, and operators in the Seminole field are reported to have agreed upon some temporary curtailment in production. Despite an undoubted surplus of production at the present when consumption is seasonably low, it is not yet clear that in the long run production for the year will be in excess of crude requirements, which have been increasing rapidly in recent years and may reach or even exceed 900,000,000 barrels.

The Automobile Industry

Production of automobiles has increased from the low point touched last December, but the industry is feeling its way cautiously and with a few outstanding exceptions plants con-

tinue to operate under the levels of a year ago. The following table comparing the output of passenger cars and trucks in January of this year with the records of previous years shows the total for passenger cars to have been the lowest for the month since 1922. Truck production, on the other hand, made a much better showing, the total being the largest for any January thus far recorded.

JANUARY MOTOR PRODUCTION—1922-1927

January	Passenger Cars	Trucks
1922	80,104	9,176
1923	219,885	19,745
1924	283,981	28,992
1925	204,620	26,576
1926	272,922	29,819
1927	196,973	37,157

During February, the reports published on factory employment at Detroit have indicated a further recovery of plant operations as compared with earlier weeks, but that production is still running under a year ago is shown by the employment figures which are down by some 48,000 workers.

Just how the industry will fare in 1927 is not yet clear, as little definite line can be had on the situation until the results of the Spring selling season are known. Manufacturers in most cases look forward to the year with conservative confidence, conceding that competition will doubtless be stiffer, and production possibly some ten per cent or more off from the record totals of a year ago, but feeling that if business generally is good the automobile industry will get its fair share.

Money and Banking

Money conditions continued easy in February. Call loans have ruled chiefly at 4 per cent, with occasional dips to 3¾ per cent, compared with an average around 5 per cent during the same month last year. Time money is quoted 4⅜ to 4½ per cent, against 4¾-5 per cent last year, prime open market commercial paper at 4 per cent against 4½ per cent one year ago, and offering rates for bank acceptances 3⅝ per cent against the same last year. Not until late in the month did call rates show any tendency to advance, the rate then touching 4½ and 5 per cent in response to preparations for the usual March 1 settlements.

At the weekly reporting member banks commercial loans have held steady, while loans secured by stocks and bonds, including brokers' loans, have gone off consistently in the face of a strong stock market until the week of February 23, when there was a sharp increase in both items. Total of all loans, however, on February 23, the latest available date, was still considerably lower than at the beginning of the year, while investments in securities showed an increase of $127,000,000 to a point $122,000,000 above those a year ago.

At the Federal reserve banks the effect of the lessened demands upon the member banks, coupled with gold imports, has been to reduce the volume of Reserve bank credit outstanding to the lowest point since 1925.

The country therefore goes into the spring with available supplies of credit substantially greater than at this time a year ago. Undoubtedly lower commodity prices and a slightly less active pace of trade as compared with a year ago have been factors in this increase, but a far greater influence has been the excess of gold imports which amounted to $47,072,000 net in January, followed by $12,013,000 during February. Recently, however, this gold movement has slowed down. Business meantime has again been on the upgrade and the stock market has begun to absorb additional funds. Should these movements continue the effect would be to restore a normal balance of supply and demand in the money market.

The Bond Market

Those seeking evidence of the fundamental soundness of the present bond market need only to observe the ease with which the unprecedented volume of new issues since the first of the year has been absorbed—well over $1,000,000,000 during the first six weeks and probably the largest volume which American investors have ever been called upon to absorb during a similar period in peace times. While there have been some evidences of congestion here and there along the line, new offerings have flowed rather easily to the strong boxes of investors without a depressing effect upon prices which might logically have been expected. The substantial shrinkage in new flotations during recent weeks has apparently enabled the market to shake off every evidence of its overload.

That a tremendous backlog of uninvested funds still exists is evident from the continued inquiry for offerings in fair sized blocks from institutions, banks and private investors throughout the country. While the comparatively high level of bond prices now prevailing is causing hesitation on the part of some investors who are unaccustomed to the present rate of returns, keener students see little hope for an early recession in prices sufficient to justify a waiting policy.

Price movements during the month varied so greatly among the different investment groups as to cause the averages to lose much of their accustomed significance. United States Treasury obligations generally were higher, numerous issues attaining new records for all time. Foreign bonds as a class were strong, as were also railroad issues. The Dow Jones average of forty listed domestic corporate issues (10 high grade rails, 10 second grade rails,

10 industrials and 10 public utilities) on February 25th was 96.40 as compared with 96.67 on January 25th and 94.33 on February 25th a year ago. The present average, although slightly below recent high levels, is still well above the previous high reached since the beginning of the world war.

Treasury Issues at New Highs

Despite a slight stiffening in money rates due to end of the month demands, United States Treasury obligations displayed unusual activity which sent three of the long term issues to the highest levels in history. Several factors tend to explain the upward movement, among them the steady shrinkage in supply of Government securities due to the Treasury Department's debt reduction policy. The market is awaiting momentarily announcement of the details of the new financing in March, when Government securities totaling about $650,000,000 will mature. Although no definite information regarding the nature of this financing has been forthcoming, the recent wholesale accumulation of long term issues indicates a feeling that the new offering may be made on a 3½ per cent or lower basis.

Municipals

The active demand for municipals since the first of the year has resulted in steadily rising prices during most of the month. One of the strongest factors in the outlook for the immediate future of the market is the scarcity of new municipal issues. Bonds authorized but yet unsold by municipalities are thought to be smaller in volume than for several years. Many states have pretty well completed their financing programs, particularly for highways, and must seek new legislation for the authorization of additional issues, in fact constitutional amendments will be necessary in some states before any substantial bonding programs can be launched.

Of more than ordinary interest is a bill now before the New York State Legislature amending the banking laws governing municipal investments by savings banks and trust funds. This bill is the result of efforts to modernize those provisions of the existing law. Its most important provisions relate to a change of the present 7 per cent debt limit on all taxable property of cities of more than 45,000 population to a 10 per cent limit, with no limit at all on cities whose taxable real property exceeds $200,000,000. Such an amendment would have a far reaching effect upon the municipal bond market in that about 30 sizable cities throughout the country which have been stricken from the "legal list" would regain their former status. A removal of the debt limit on cities whose taxable real property exceeds $200,000,000 is made upon the theory that when no tax limit exists no real reason remains for limiting debt. This proposed law is of importance not alone because it will offer opportunities for wider diversification and better rates to New York savings banks and trustees, but also because the New York law serves as a guide to many ultra-conservative individual investors in the choice of their own securities.

Unusual Activity in Railroad List

Continuance of heavy traffic, favorable operating reports, and progress towards rail consolidations, are all making for greater activity in railroad bonds than at any time since the railroads emerged from Federal control. While the prices of railroad obligations generally showed improvement with the broadened demand, the greatest price changes took place in the second grade list, particularly those bonds likely to be favorably affected by pending consolidation negotiations. Many of the convertible issues also were active on the upside in response to advances in the stocks into which they are convertible. Among the more active issues were: Erie Convertible 4s Series D of 1953 currently traded in at around 93⅛; St. Louis and San Francisco Income 6s of 1960 at 98; Western Maryland First 4s of 1952 at around 80; Chicago and Alton 3½s of 1950 at 66¼; Delaware and Hudson Convertible 5s of 1935 at 119; International Great Northern Adjustment 6s of 1952 at 94¾; Missouri, Kansas and Texas Adjustment 5s of 1967 at 100; and all principal issues of the Northern Pacific, Great Northern, and Chicago Milwaukee and St. Paul.

The principal railroad issue of the month was the $95,000,000 offering of Missouri Pacific First and Refunding 5s Series F of 1977. In size this offering is second among railroad issues only to the $230,000,000 issue of Chicago Burlington and Quincy Railroad made in 1921. A considerable portion of the proceeds of the new issue will be used to refund outstanding 6 per cent bonds called in advance of maturity. Through the issuance of 5 per cent bonds to take the place of the higher rate issue, the company will materially reduce its interest charges.

The industrial list generally was active during the month with rather sensational gains in those convertible issues whose common stocks are rapidly approaching a conversion figure. Notable among these are the Granby Copper Company Convertible 7s now selling at around 150 as compared with a low for the year of 127. Barnsdall 6s with warrants attached attained a new high of 106⅜. Sugar company bonds were generally inactive but steady with Warner Sugar Company issues the exception, both the First 7s of 1941 and the Refunding 7s of 1939 gaining several points upon confirmation of sale to the National Sugar Company.

The McFadden Act

The McFadden bill for effecting certain amendments to the Federal Reserve and National Bank acts, and which with some minor changes in form has been pending in the Congress about four years, has passed both houses, and been signed by the President.

The most important feature of the bill is that which provides for indeterminate extension of the charters of the Federal Reserve banks. The original charters ran for twenty years and would expire in 1933. In view of the facilities which minorities have for delaying and defeating legislation by obstructive tactics and the well known antagonism toward the Reserve system existing among minority groups in both houses, there was danger that a serious situation might develop in case the charters were not extended, or even if action was delayed until expiration was imminent. If the charters were not extended the twelve Reserve banks would have to go into liquidation and their outstanding credits in the form of loans, circulating notes, etc., aggregating over $1,000,000,000 would have to be retired. The possibility of facing this contingency would be a disturbing factor in the business situation for many months in advance, even though extension finally was granted. The understanding has been that by reason of the changes occurring in the Senate the opposition in that body would be stronger during the next two years than in the present body. Moreover, it has been apparent that efforts would be made to amend the act in various ways to suit the views of the element which has charged all the ills of deflation to the Reserve banks. Hence the desirability of securing the charter legislation at this time.

Criticism of the Reserve Banks

The State Senate of Iowa recently adopted a resolution preceded by a series of whereases, first declaring that the power of credit expansion and contraction by the Reserve banks is lodged with the Federal Reserve Board, upon a basis of liquid assets, and then proceeding as follows:

Whereas, real estate and farm lands were not included as a basis of liquid credit; and

Whereas, agricultural products were not included as a basis of liquid credit by the federal reserve system; and

Whereas, it is essential for the maintenance of a stable price of property for investment purposes that

(a) Property purchased will sell within a reasonable time after the purchase without loss,

(b) That by reason of the ownership of such property so purchased the purchaser is entitled to credit at the banking institutions of the country; and

Whereas, in this intensively agricultural state of Iowa the vast proportion of the value of all the property in the state consists of farm lands, farm products, and other real estate; and

Whereas, there is a great public demand from the people in this state of Iowa, and other agricultural sections of the country that the law creating the federal reserve system and its administration be modified and changed so that their property and their products shall be on the same basis as other property and other products for rediscount by the federal reserve system of the United States; and

Whereas, the federal reserve system as now constituted as a creature has transcended the powers of its creator; and

Whereas, the charter of the federal reserve system expires in 1933; and

Whereas, there is a bill now pending in Congress for a rechartering of the federal reserve system for a period of fifty years from 1933;

Now, therefore, be it resolved, that the Forty-Second General Assembly of the state of Iowa hereby directs the attention of the members of Congress now in session to the facts enumerated in the foregoing resolution, and memorialize Congress to enact legislation that will make such federal reserve board fully representative of the people and the property of the federal reserve districts of the country to the end that the value of money through the rates fixed therefor be made uniform, and that real estate, farm lands and farm products be included in such system as a basis of business credit.

The Senate is reported to have voted down by a vote of 23 to 19 a more radical declaration, which had passed the House, and adopted the foregoing by a vote of 42 to 0. The membership of the Senate numbers 50.

Eligibility of Paper Based on Farm Products

The declarations are entirely in error in stating that farm products are not eligible as a basis of credit at the Reserve banks. It is difficult to understand how such a statement could be made, as paper based upon farm products has as high a degree of eligibility as any other class of paper. Furthermore, it is especially favored in that it may have a term of six months instead of three months, the latter being the limit for paper based upon other products. Section 13a of the Federal Reserve Act defines the classes of paper eligible to rediscount at the Reserve banks, and this section is reproduced herewith in full:

13a. Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise, from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investment or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: **Provided,** That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal Reserve Bank, to be ascertained and fixed by the Federal Reserve Board.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower,

whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

It is safe to say that 90 per cent of the property values existing in New York city at any given date consist of real estate, stocks and bonds, all of which are ineligible as the basis of loans at the Reserve banks. Farm products are more acceptable than first mortgage bonds upon the finest business blocks in New York city or upon the best railroads in the United States. The latter are not acceptable at all, not because they are not valuable as investments but because they are not "liquid" in the sense that grain, meat, dairy products, cotton, rice, potatoes, clothing, shoes, dress goods, coal, lumber, implements, and other goods constantly moving in current and necessary trade are liquid.

The reason for this is that there is a continual flow of consumption goods; even in the worst of bad times they are moving in large volumes. Promissory notes, drafts and bills of exchange representing goods of common consumption moving from producers to consumers, or in warehouses awaiting movement, or even in process of production, constitute what bankers in all countries call liquid paper because it is being paid off continually and more created. It is the preferred paper in all countries for the backing of currency.

A fundamental difference as regards liquidity exists between such paper and paper which represents fixed and permanent assets, such as lands—whether they be farm or city property—railroads, industrial equipment and the like. The last named classes are productive property, held for investment rather than sale, and while they may be of unquestioned value, are of comparatively slow and uncertain sale. For this reason they are not regarded in any country as suitable cover for currency issues, which are payable on demand.

The Primary Business of Banks

It is primarily the business of banks, and particularly of the central banks which issue currency and stand behind the entire banking and business situation, to serve the regular processes of industry and trade—not to furnish capital for investment purposes. The last-named needs are best supplied by long-term loans made by investors. There is practically no limit to the possible demand for loans of this class, and the banks whose own obligations are mainly payable on demand, should respond to such demands in a very limited way if at all. The proper field of banks, which are using funds temporarily in their hands and fluctuating in amount, is in financing the production and flow of consumption goods for which there is a constant market. This demand, as distinguished from the investment demand, is practically limited, because productive capacity is limited and consumption is always going on. This limitation upon demands is another reason why this class of paper is preferred as the basis of currency. No banking system ever got into serious trouble, and no country ever suffered seriously from currency inflation, if bank credit was used only for financing current trade.

The Great Inflation

The great inflation which was responsible for all the ills now charged to deflation began with the war requirements of the Government. The Federal Reserve act made one exception from the requirement that Federal Reserve credit should be issued only upon "liquid" paper of the classes described above, and that exception was in favor of paper secured by Government obligations. This was thought to be necessary as a means of placing the resources of the nation behind the Government in an emergency. Undoubtedly it rendered great service to the Government in the war, but the resulting inflation violently deranged the credit and price situation.

That was bad enough, but the policy proposed by the above resolution, to make all kinds of real estate eligible as the basis of Reserve bank credit and currency, would be to discard all banking principles and experience. The volume of paper which naturally arises from the regular trade of the country is ample to supply all of the bank credit which that trade requires. To enlarge the amount of eligible paper as proposed would inevitably create a state of inflation, and no amount of collateral and credit ever satisfies the demand which inflation creates. That demand grows by what it feeds on, as the experiences of a dozen European countries recently have demonstrated.

There is one thing to be said for the loans that were made by the Reserve banks upon government bonds: the security was good. Inflation depreciated the purchasing power of the currency based thereon but at least the security proved to be worth the value for which it was pledged. What would have been the results to the Reserve banks and their currency if promises based upon farm lands and other real estate in Iowa, Florida and elsewhere had been accepted by those institutions? Probably the acceptance of first mortgages would not satisfy the intent of the above resolution, for people who have been able to give first mortgages have not been in serious trouble. The want reflected in the resolution has been for a rediscounting institution that would issue currency on second and third mortgages.

Responsibility for Deflation

The grievance against the Reserve banks is kept alive by insistence that they were responsible for the deflation of prices and credit, and that neither world conditions nor the reckless over-lending of local banks outside the legitimate banking field had anything to do with it. An abundance of evidence is available showing that the Reserve banks did not force the fall of prices or the contraction of credit, but on the contrary greatly expanded their outstanding credits while prices were declining. The principal declines occurred in the year 1920. The prices of farm products were at their highest in January, 1920, and lower at the end of that year than they have been most of the time since. This mischief was wrought in the year 1920, and during that year the rediscounts of the Federal Reserve bank of Chicago increased from $267,000,000 to $475,000,000, or by 77.9 per cent.

The Federal Reserve bank of Chicago has stated that the borrowings of its Iowa member banks in February, 1920, aggregated $22,607,000 and in December of the same year aggregated $98,636,000, an increase of $76,029,000, or 336 per cent! It is strange that no member of the Iowa Senate thought these figures sufficiently pertinent to deserve mention in the discussion of the foregoing resolution.

It is not difficult to understand what was occurring in Iowa in 1920. The state had been passing through a period of inflation, with much borrowing for various speculative purposes and the local banks were expanded to the limit of their lending capacity. Deposits were at a high level because the products of the State were selling at very high prices. Prices began to fall, not alone in Iowa or the United States, but all over the world. As the war and the interruption of industry had put up prices, it was natural that the restoration of peace and resumption of normal industry, including the return of millions of men to the farms, should cause a decline of prices. As the prices of Iowa products fell, the deposits of Iowa banks naturally declined, and the banks found themselves under pressure to meet the calls of their depositors. They resorted to their Reserve bank for assistance and got it to the extent above shown.

In March, 1920, the deposits of all the incorporated banks of Iowa amounted to approximately $1,123,000,000 and in December the totals were $875,000,000, a decrease of $248,000,000. Between the same dates the loans of these banks were reduced from $953,000,000 to $937,000,000, or by $16,000,000. Thus it appears that of the $248,000,000 net reduction in deposits only $16,000,000 was accomplished by reducing loans and $76,000,000 was accomplished by rediscounts or loans at the Reserve bank. The greater part of the remainder was accomplished by borrowing of correspondent banks outside of the State, especially in St. Louis, Chicago and New York, the correspondent banks supplying the necessary eligible paper and obtaining the funds of their own Reserve banks.

The Federal Reserve Bank of Chicago, which was bearing the brunt of this demand from Iowa and had several other States on its hands, was up to the limit of its lending power and borrowing for the emergency, as shown by its reports, from the Federal Reserve banks of Cleveland, New York and Boston. The aggregate borrowings of the Reserve banks of the agricultural districts from the Reserve banks of Cleveland, Philadelphia, New York and Boston, at the highest point in 1920 exceeded $250,000,000. The Federal Reserve banks do not have unlimited power to issue credit; they are limited by the requirements of the Reserve act to maintain a certain percentage of gold to their liabilities. The fact that the Western Reserve banks were barely above these percentages and borrowing heavily from the Eastern Reserve banks to maintain them shows that the entire system was being strained to meet the demands of the farming districts. The simple fact is that it was beyond the capacity of the Reserve banks to furnish all the credit that was wanted at that time.

An Example of Criticism

Several years ago under the pressure of criticism of the loose and defamatory character to which the Reserve banks have been subject, the Federal Reserve Bank of Chicago quoted without the name or location of the recipient an extract from a letter from it to a bank officer who had been expressing his dissatisfaction with Reserve bank policy. The extract reads as follows:

> I cannot illustrate to you what happened to the Iowa banks at that time, or what the influence of the Federal Reserve Bank was in their business, any better than to point out to you figures of your own institution. They are just a sample of what happened to hundreds of other banks in the State of Iowa.
>
> If you will look up your records, having in mind the dates of deflation above mentioned, you will find that your institution was out of debt here in April, 1920, and that in December, 1920, you had borrowed here as high as $276,000, which was five and one-half times the amount of your capital stock. Does that indicate that we were calling your loans in a manner that created great hardship to your customers?
>
> You will also notice that on February 28, 1920, your deposits were $852,000, while on December 29, 1920, they were $483,000, a decline of more than 43 per cent. The fact that the deposits in your bank during that period went down $369,000 might suggest to you a reason why you found it necessary to ask some of your customers to pay their loans at that time, and why you needed and got help from the Federal Reserve Bank for that purpose. Your decline in deposits in 1920 made it necessary for you to rediscount $276,000 to pay your depositors. This bank was glad to furnish you with that accommodation, as needed.
>
> Maybe, if the Federal Reserve Bank service had not been available, you could have borrowed that amount of money somewhere else. I do not know. I am sure, however, that there are many—probably several hun-

dred—banks in Iowa that could not have secured elsewhere the amount of credit that they got directly and indirectly from the Federal Reserve Bank at that time, and if the service of the Federal Reserve Bank had not been available to them in that emergency, they would have been compelled to close their doors.

The foregoing are the basic facts about the great deflation in Iowa, and the relation of the Reserve banks thereto. Such a flood of misrepresentation has swept over the State that they have been buried out of sight.

Charters of Federal Reserve and National Banks

The persistent misrepresentation which is responsible for the greater part of the misunderstanding which exists about the Reserve banks, the McFadden measure, the attitude of the East upon the McNary-Haugen bill, and kindred subjects is illustrated by this paragraph of a dispatch from a Washington correspondent to one of the widely circulated newspapers of the Middle West:

> Washington, Feb. 16.—Under cover of the noisy farm relief fight, Secretary of the Treasury Mellon has quietly nursed through Congress a sweeping bill relaxing restrictions on the national banking system and granting perpetual charters to federal reserve banks—the Pepper-McFadden banking bill.

The facts are that the bill in question has been before Congress about four years and has been one of the most generally discussed of pending measures. It has been under discussion in the Committees of both houses repeatedly. It has been under consideration and debate in both houses several times and has passed both houses in some form several times. It has been the uppermost subject in bankers' conventions, district, state and national, over four years. Every banker has been circularized upon it, for and against. And, finally, it reached a vote in the Senate under circumstances of exceptional notoriety, through an arrangement said to have been promoted by the Vice President, under which both the McNary-Haugen and Pepper-McFadden bills would be voted upon—the McNary-Haugen bill first.

As to the "perpetual charters" the provision of the original act was that each of these corporations should have power——

> Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

By the new act this paragraph is amended to read as follows:

> Second. To have succession after the approval of this Act until dissolved by Act of Congress or until forfeiture of franchise for violation of law.

Instead of running twenty years, subject to adverse action by Congress, the franchise will now run indefinitely subject to such action. The gain is in the fact that the Reserve banks will not have to go to Congress from time to time for affirmative action, subject to the obstructive methods which give so much power to minorities. Either House of Congress might defeat an extension of the system, but concurrent action by both Houses and the President will be necessary to destroy or cripple the system hereafter. The charters, however, are not perpetual in the sense that they cannot be terminated.

Section 5736 of the revised statutes of the United States relative to the charters of national banks is amended to make these charters hereafter indeterminate, like the charters of the Reserve banks. The amended sub-section reads as follows:

> Second. To have succession from the date of the approval of this Act, or from the date of its organization if organized after such date of approval until such time as it be dissolved by the act of its shareholders owning two-thirds of its stock, or until its franchise becomes forfeited by reason of violation of law, or until terminated by either a general or a special Act of Congress or until its affairs be placed in the hands of a receiver and finally wound up by him.

Branch Banks

The feature of the bill which has been the subject of greatest interest is that relating to branch banks. The opposition to branch banking undeniably is very strong, and representations have been commonly made that this bill would open up the country to a great extension of that system. In truth it does nothing of the kind. It only provides that in States where banks and trust companies operating under State charters are authorized by law to have branches the National banks may have that privilege, although with certain limitations. This and other provisions of the act are for the purpose of placing National banks upon an equality with State banking institutions in respects wherein the latter have had greater freedom of action. The consideration had become important, for under the pressure of competition National banks in considerable numbers were surrendering their charters and joining the State systems.

The National banks are the backbone of the Federal system. They supply 65.5 per cent of the capital, against 34.5 supplied by State banks and trust companies, and 61.5 per cent of the reserve deposits, against 38.4 supplied by the State institutions. Their membership is compulsory, while the membership of State institutions is optional, the Congress being without authority to compel them to join.

These facts were set forth clearly and concisely by Mr. McFadden, author of the act, in a recent speech, from which the following paragraph is taken:

> The primary object of the McFadden National Banking Bill is to amend the National Bank Act so that the national banks will be able to meet the needs of modern industry and commerce and also to establish competitive equality among all members of the Federal Reserve System. We must do this because

otherwise national banks will seek the greater advantages offered by state banking laws and in that event the Federal Reserve System without the compulsory membership of national banks would be only a theory, not a reality. This is evidenced by the fact that out of 16,000 eligible state commercial banks and trust companies only about 10 per cent. have elected to become voluntary members of the system. National Banks have been knocking at the doors of Congress for many years asking for the relief in the proposed legislation. If Congress denies that relief or defers action for any length of time it will strike a serious blow at the Federal Reserve System because the disintegration of the national system will continue and ultimately we will have to depend for a large amount of the resources of the Federal Reserve System upon the voluntary membership of state banks which can come in and go out of the system at will.

The Comptroller of the Currency in his 1925 report, urging the passage of the McFadden bill, pointed out that the resources of the national banks had declined relatively (although not actually) until they held only 39 per cent of the banking resources of the country. He said the Federal Government was losing control over national credit conditions, and that the greatest volume of commercial banking was passing to the supervision of State legislatures. In 1926 this tendency continued, changes from the National system to the State systems carrying resources aggregating $560,000,000, while changes from the State systems to the National system carried an aggregate of $235,000,000.

Under the new act, whether a State shall have branch banking or not depends wholly upon its own laws. If branches are lawful under State charters they will be lawful under the National bank act. A national bank, however, may not have a branch outside of the city in which its main office is situated, or within the limits of any city, town or village of which the population by the last decennial census was less than 25,000. No more than one such branch may be thus established where the population does not exceed 50,000; and not more than two such branches where the population does not exceed 100,000. Where the population exceeds 100,000 the determination of the number of branches shall be within the discretion of the Comptroller of the Currency. These restrictions apply to national banks regardless of the provisions of State laws as to State banks.

The act does not alter the present status of State banks belonging to the Reserve system, except that after its approval no State bank may acquire branches outside the city, town or village in which the parent bank is located without surrendering its membership in the Reserve bank.

Dealing in Investment Securities and in Safe Deposit Business

Section 5137 of the revised statutes has been enlarged to specifically authorize and regulate the activities of National banks in the "business of buying and selling investment securities" and "the carrying on of the business known as the safe deposit business." The first is brought under regulations to be prescribed by the Comptroller of the Treasury, but the total amount of such investment securities of any one obligor or maker held by any National banks shall at no time exceed 25 per cent of the amount of the capital stock of such bank actually paid in and unimpaired and 25 per cent of its unimpaired surplus fund, but this limitation shall not apply to obligations of the United States or general obligations of any State or political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act. In carrying on a safe deposit business not more than 15 per cent of a bank's capital stock and 15 per cent of its unimpaired surplus may be invested.

The provision for loans upon farm land in the same section has been broadened to authorize loans on real estate by national banks in central reserve cities, heretofore forbidden, and extending the permissible term of loans on city real estate by banks in other cities from one year, as heretofore, to five years. Furthermore, the language now is that national banks "may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such banks may pay upon such time deposits or upon savings deposits or other deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State wherein such national banking association is located." This puts the National banks definitely into the savings bank business.

Section 5200 of the Revised Statutes is liberalized to some extent by increasing on a sliding scale proportioned upon the margin between the market value of the commodity and the face amount of the loan, the existing limitation of 25 per cent of its capital and surplus as a maximum to which a national bank may accept obligations secured by shipping documents, warehouse receipts, or other such documents transferring or securing title on the covering of readily marketable, non-perishable staples, fully covered by insurance if customary, with an ultimate limit of 50 per cent of its capital and surplus against advances on staples, the market value of which is not less than 140 per cent of the face value of the advance; also by exempting from the 10 per cent limitations, the liability incurred by a national bank in discounting with the Federal Intermediate Credit banks, agricultural paper of the character defined in the Agricultural Credits Act.

Other Provisions

The act makes more definite provisions for the consolidation of State banks with National banks than have existed heretofore, and par-

ticularly for the conveyance of every species of property and interests into such consolidations, "including the right of succession as trustee, executor or in any other fiduciary capacity." This with the indeterminate charters places the National banks on an equality to accept long term trusteeships.

The direct payment of stock dividends against accumulated surplus is authorized. Heretofore it has been necessary in order to convert surplus into capital to declare a cash dividend and have the stockholders subscribe for the new stock issue.

The number of reports which every National bank is required to make in each year to the Comptroller of the Currency is reduced from 5 to 3.

The McNary-Haugen Bill

The McNary-Haugen bill has been vetoed, as nearly everybody expected it would be. The President's opinion of it was well known, and there was no reason to suppose that he would not stand by it. The President is an independent part of the law-making power, charged by the constitution with the duty of passing honest judgment upon the legislation laid before him for approval. If President Coolidge had given his approval to this measure after his repeated expressions of disapproval, the people of this country would have been obliged to revise the opinion of him which was behind the great vote given him in 1924. There is no reason to think that the menacing character of much of the pressure which was brought to bear on him by the advocates of the bill had any influence one way or the other. He has simply reaffirmed his position with a very cogent and thorough discussion.

He believed the measure to be unconstitutional for several reasons and presents the opinion of the Attorney-General in support of this view, but instead of evading his own duty toward it by passing it on to the Courts to receive the coup de grace, he chose to veto it upon the broad grounds that it would prove impracticable in operation, and that instead of benefiting agriculture it would work great injury to that industry. This is a position which the advocates of the measure have seemed unable to comprehend, although most of them admit that they are not clear in their own minds as to what the effects would be. Congressman Haugen, co-author of the bill, in his speech of exposition in the House, called it an experiment, and there is good basis for the opinion that a majority of the members of both Senate and House are unconvinced as to its merits. A majority was registered against a bill of practically the same terms by the same membership only a few months ago, and the change is accounted for by the plea that something should be done for the farmers and that this experiment had best be tried, to satisfy them.

If there was any guaranty that the scheme would not prove harmful the plea to give it a trial would have weight, but one who believes that it would make the farm situation worse would not be justified in accepting it. A sensible person does not try a quack remedy on a member of his family whose life might be imperilled, simply to see how it would work. The President has refused to have any part in the enactment of a law which he thoroughly believed would be harmful to the very people said to be in dire need of help.

Violates Fundamental Principles

The bill was hopeless as a relief measure because it violated fundamental principles. It was an attempt to cure a surplus by subsidizing it, to maintain the status quo in production in the face of evidence that there was need for readjustments. Its advocates created a strong presumption against their own arguments by stressing certain price-fixing experiments of other countries, which in fact do not support this plan. All experience has shown that price regulation inevitably fails unless accompanied by production-control, which is not provided for in this measure. It requires no profound knowledge of economics to convince a practical person that if any product is produced in excess of the demand for it, so that an increasing surplus is carried over from one crop year to another, the Government cannot continue to buy the surplus indefinitely. It will pile up in the visible supply, and eventually the policy will have to be abandoned.

Two-thirds of a normal crop of cotton will be carried over from the present crop year into the next, and who will venture to say that the establishment of a Government Board to fix the price, backed by the United States Treasury, would not enhance the prospect of a still larger carry-over next year?

The Feed Grains

Corn is low in price because the visible supply is high in comparison with all past years. There must be less production or increased consumption in order to correct this situation, and the same influence has been controlling the price of oats. A recent statement issued by C. S. Holmes, head of the Department of Agricultural Economics of the Iowa State Agricultural College, discusses the subject so clearly that it ought to be circulated together with the President's veto message. A summary is given below. After saying that hog supplies will remain light and prices good for the near future and that cattle are just entering a rising cycle of prices to continue for a period of years the condensed report says:

The outlook for corn and oats prices for the next few years is not so good. Oats acreage in the United

States has been increased by 4,000,000 acres since 1920, in spite of a lessened demand owing to decrease in horse population, and in the face of falling values. It is predicted oats values will continue to decline, unless acreage is reduced.

Corn values have been unfavorably influenced by oats prices, and the same decline in numbers of horses also directly lessens the demand for corn. A big influence in the corn supply and demand that is being actually felt is due to the advance in the knowledge of feeding and the greater efficiency in the production of pork, beef and other animal products.

It is pointed out that the old ways of feeding requiring 11 or 12 bus. of corn to produce 100 lbs. of hog, is giving way to a system based on new knowledge of the use of supplemental protein feeds and minerals, enabling the feeder to produce 100 lbs. hog live weight for seven bushels of corn or less. This system increases hog profits, of course, but lessens the requirements for corn, and hence tends to lower corn prices and indirectly, oats prices.

To quite an extent also, supplemental feeds of protein and mineral ingredients have lessened grain requirements for production of beef, dairy and poultry products, mutton and wool. Then it is believed acre yields of corn that have shown increasing tendencies for a number of years will remain on a permanent higher basis than formerly, on account new varieties, increasing attention to soil improvement and better methods of culture.

While the cash price outlook for feed grains in the near future is not promising for those selling grain as such, for those who convert the grain into pork, beef or other finished animal product, the outlook is bright.

The prediction that cattle are entering upon a period of rising values is based on the live stock census of the United States department of agriculture showing that the cattle population of the country is smaller than for many years. Moreover, steers and yearlings of the ranges and breeding grounds have been culled closer than at any time in the past, so that the small cattle population also averages lighter in weight perhaps than at any previous time. It is pointed out that cattle supplies rise and fall through long periods of years, or cycles, and since the supplies have decreased to a low ebb, a long period of higher prices will be required to again increase the supplies and start the pendulum of prices swinging in the opposite direction.

Doctor Holmes expects no more spring pigs to be farrowed in the corn belt, where the bulk of the hogs are produced, than were farrowed in the spring of 1926, and in this he is in agreement with the United States department of agriculture's outlook report. He predicts fewer hogs will go to market the first six months of 1927 than for the same period of 1926. Under these conditions the price outlook for hogs is considered bright for all of 1927 and into 1928.

The statement does not mention the McNary-Haugen bill, but the analysis of the situation is totally different from that given by the advocates of the bill. It indicates that the issue is not between the East and the West, but between the Iowa College of Agriculture and the Iowa delegation in Congress. The rest of the country is entitled to take sides as it chooses.

The farmers will be able to decide for themselves whether or not the statements as to the declining consumption of corn and oats are true or not, and if true whether it is not better policy to adapt farming operations to the conditions than to look to the Government to support them in a policy of ignoring actual conditions.

More Subjects for Price-Fixing

The following Associated Press dispatch is self-explanatory:

Chicago, Feb. 10.—Florida, California and Texas are firing a regular citrus barrage at the rest of the country. The Government Bureau of Agricultural Economics reported today that oranges were coming out of Florida and California nearly twice as fast as a year ago.

Texas has already more than doubled last year's movement of grapefruit. In addition California's lemon output is 500 carloads in excess of the corresponding 1926 total.

Even citrus enthusiasts have been overwhelmed and prices are tending downward.

From a recent pamphlet upon citrus fruit growing in Florida, issued by the Department of Agriculture, we take the following:

Attractive returns from citrus-fruit production have led to a great increase in the plantings of citrus trees in Florida. Many millions of trees which were planted during the recent period of good fruit prices are yet to come into bearing.

Up to the present time (1925) a market has been found for the product but the trend of prices indicates that in a normal year the supply of fruit, especially that of the lower grades, has been somewhat in excess of a demand that would assure a profit to most growers. In Florida there have been clear indications for some time that certain varieties and grades of oranges and grapefruit have been unprofitable; also that certain locations were not adapted to economical production.

What shall be done about the situation? Will the next McNary-Haugen bill include citrus fruits, in order that the remaining available lands in Florida, Texas and California may be planted and profitable returns assured?

Here is a recent paragraph from the New York Journal of Commerce about canned goods, which is prima facie evidence of the need for a more comprehensive McNary-Haugen bill:

A world of food was canned in 1926—another record pea and corn pack, one of the biggest outputs of Alaska salmon in years, a big California fruit and Hawaiian pineapple supply and so on down the line, thrown on the market before the last of a previous season's abnormally large supply was liquidated. Too much was produced in 1925 and 1926 for the good of the industry, if weak spots were to be avoided. Of course, this food can be moved as the consuming power of the country is almost unlimited but abnormally large packs necessitate abnormally wide outlets and are accompanied by unsettled conditions.

It is said that the inclusion of tobacco in the list of products under the special protection of the last McNary-Haugen bill brought 17 votes to the bill in the House. How many in the final count were credited to rice we do not know, but now as the ranks are forming again is the time for every group which feels the need of a higher standard of living to make itself a factor in the new situation.

The Situation in Metals

Advocates of the farm bill were disposed to make quite a point of the organization of the Copper Export Association last Summer, under the authority of the Webb-Pomerene act. They thought this was an instance of government favoritism for other industries than agriculture. Since then copper prices have declined as low as 12½ cents in the past month, which compares with 14.1 cents, the average price over the five years 1909-13. The following is the New York Times market re-

port of February 26, which is interesting as showing the price for foreign as well as domestic delivery:

Copper prices yesterday continued their advance from the recent low levels. The metal was quoted 13⅛ cents a pound, up ⅛ cent, for domestic shipment delivered to the end of May, with some producers asking 13¼ cents. Inquiry is in fair volume. A fair tonnage was sold at 13 cents, but resistance is being shown toward paying 13⅛.

The Export Association is quoting 13.45 cents c. i. f. usual foreign destinations, against 13.375 formerly. The total recovery in domestic prices from the recent low of 12½ has been ⅝ cent.

The Iron Age's composite average of the several grades of pig iron in the week ended February 21 was $18.96 per ton, which compares with the ten year pre-war average of $15.92, or about 20 per cent higher. The Bureau of Labor's index number for the entire group of metals and metal products in January was 124.4, which compares with 137.2 for Farm Products.

The producers of the metals would like to be included in the next McNary-Haugen bill, the producers of coal, oil and many other products also, but President Coolidge rightly says that "a policy of Government price-fixing once started has alike no justice and no end."

The Cement Industry

Concrete is one of the oldest building materials of the civilized world and the remains of construction work done before the Christian era testify to its time-enduring qualities. The binding element in concrete is commonly known as "Portland" cement, getting its name from the Isle of Portland off the northern coast of England. The cement of recent years undoubtedly is superior to that made by the Romans or the early production in England. American engineers and inventors have made great improvements in the processes of manufacture, both as regards the certainty of quality and the lowering of costs. It is only in recent years that it has been produced in this country on a large scale. As late as 1895, according to the government statistics, the total production of the United States was only about 1,000,000 barrels per year. In 1900 it was 8,482,000 barrels, in 1905 it was 35,246,000, in 1913 it had reached 92,000,000 barrels, but during the war it fell off, owing to the decline of construction work. After the war it revived and in 1920 for the first time the year's output reached 100,000,000 barrels. Since 1921, when it fell off slightly, it has been going ahead by leaps and bounds, the 1926 figures being 164,000,000 barrels. This exceeds the production of all the rest of the world.

Cooperative Organization

The great variety of uses for cement, the expenditure of effort and money required for acquainting the public with its superiority for such uses, and the importance to the entire industry of having all concrete work show uniform quality, have caused manufacturers to form the Portland Cement Association, which has built a fine building in Chicago for its headquarters. A research laboratory is maintained there with a staff of 40 persons. Besides the headquarters the Association maintains 31 district offices in different parts of the country, with staffs engaged in promoting the consumption of cement. This organization is in behalf of the industry as a whole, and accomplishes the purpose with which it is charged more economically than if each manufacturer maintained an independent organization for it.

This cooperation is favored by the fact that all cement is now made under common specifications, agreed to after a long series of experiments participated in by the American Society for Testing Materials and the United States Bureau of Standards. Competition as to quality therefore has practically disappeared, as all manufacturers use these specifications.

The activities of the Association and the fact that transportation charges are so important a factor in determining the distribution of cement has caused it to be commonly said that the industry was in a combination to control prices, but there is plenty of evidence that competition has been very keen, and that prices have afforded very moderate profits. Indeed, notwithstanding the rapidity with which consumption has increased, the capacity of the industry most of the time has kept well ahead, with the result that the mills have been struggling for quantity production.

The multiplication of mills has been constantly stimulated by the fact that freight charges are so large a percentage of the selling price of the product. As consumption has increased in different localities this has afforded an inducement for the building of local mills, keeping the industry much of the time overbuilt.

High Capital Investment

No other comparably finished product and requiring so large an investment in proportion to the value of the product is sold at so low a price per ton or per pound as Portland cement.

A cement mill making a million barrels, the equivalent of 375,000,000 pounds of cement, should have received for its product in 1925 (average for the country) $1,700,000 net. This does not include packages or transportation charges. Such a plant properly equipped, with reasonable working capital and free from debt, would represent an investment of about $4,000,000.00. On this basis it would require over two years for a single capital turnover.

This suggests a sound economic reason for the present drift toward combinations of cement mills similar to what we have seen in many other industries. Obviously the proportionate overhead saving is greater in the cement industry. Such combinations of mills strategically located are also important for the saving of transportation charges. The percentage of mill price is practically never less than 10 per cent and averages about 20 per cent. The saving in avoidance of competitive "cross shipments" may mean the difference between a profit and a loss.

The industry has made great engineering progress in recent years. For example, the records of one of the important companies show that in 1925 it produced 1,000 barrels of cement with 561 man hours of labor, while in 1921 to produce the same amount of cement required 739 man hours, and in 1919, but slightly better than the averages for the 836 man hours. These figures probably are but slightly higher than for the industry as a whole, and they come from a larger investment in equipment and of course do not represent net gain. Power-driven equipment involves heavy depreciation costs, and the average of all wages is much higher than when a larger proportion of unskilled labor was employed.

The estimated present capacity of the country's cement plants is approximately 200,000,000 barrels annually, and if proposed mills from Maine to Louisiana and from the Great Lakes to Mexico are added the increase will be about 8,000,000 barrels. This would mean an excess of capacity over present requirements of about 20 per cent, and so distributed as to assure abundant competition in every section.

Although the use of cement has increased rapidly, the consumption has been to a very great extent financed by the borrowing power of States and municipalities, and it may be questioned whether such borrowing will continue at the same rate, in view of the rising protest against increasing taxation. Furthermore, many local governments will require to have their debt limits revised if they are to continue expenditures on the past scale. Another feature which the industry complains of as disappointing is the slow rate of substitution of Portland cement concrete for less permanent building materials.

Tendency to Overexpansion

At present the cement business seems likely to afford another illustration of the tendency to overdo every growing industry. Of late the Southeastern States have been leading in this expansion. The productive capacity of cement mills in and south of the States of Virginia and Tennessee is now 15,746,000 barrels. These mills shipped in 1925 13,048,000 barrels, while they produced 13,506,000 barrels. The actual distribution of American production in the nine states in this territory was 16,533,920 barrels, in addition to which 1,219,500 barrels of imported Portland cement were received at South Atlantic and Gulf ports east of and including New Orleans. These figures indicate that there were shipped into this territory in excess of 2,000,000 barrels from Northern and Western mills. Virginia has two cement plants, located, one in the extreme southwestern part of the State and one in the extreme southeastern. Owing to their location, the northern portion of the State is largely served by northern mills, outside of the territory in question.

All of this territory is competitive ground for foreign cement, of which the total importations into this country in 1925 were over 3,500,000 barrels. There is no import duty on cement. It is estimated that the increase of manufacturing capacity will bring the production of these Southeastern States to about 17,000,000 barrels in 1927, while there is little likelihood that the consumption in that territory of American product from all sources will come within a million barrels of that figure.

There are similar situations in other parts of the country, although perhaps no other quite so extensive. Other industries, however, have done and are in danger of doing the same thing and it is well to note that developments of this kind are what make the business cycle. So long as the industries are kept in a good state of equilibrium prosperity will be maintained. Over-development ties up capital in idleness, produces short time employment and slows down the movement of general business.

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